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Hollywoodland: Investing in an Emerging Tech, Digital Media, and Entertainment Industry Market

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Hollywoodland: Investing in an Emerging Tech, Digital Media, and Entertainment Industry Market

Abstract

This case focuses on an emerging tech, digital media, and entertainment industry market with a stringent entitlement environment, and the opportunity for a developer to create an innovative project that capitalizes on emerging trends. The case asks students to propose a development strategy for a featured site taking into account a wide range of variables and potential uses. The developer, The Oceanic Fund (TOF), has been invited to submit a purchase proposal for a compelling property that had recently come onto the market. In their proposal, TOF must elect to either purchase the asset outright or, alternatively, form a 50/50 joint venture with the seller – Mays McCovey – a creditor that has recently taken title to the asset pursuant to a foreclosure on the previous developer/owner. The case's protagonist is Ben Taylor, a young Development Manager who has been tasked with devising a strategy for the projec, and preparing a proposal to TOF's principals. Students must assess the project through Ben's eyes and devise a strategy that accomplishes a suitable use(s) for the site that is feasible within the entitlement and financing environment, satisfies TOF's return requirements, and intelligently capitalizes on the opportunities borne out of an emerging market. The proposed project gives students exposure to niche product types such as sound stages, recording studios, and creative office, in addition to more conventional asset types such as retail, residential, and hospitality. The case encourages forward thinking and the importance of understanding business trends and business culture, especially those of tech, digital media, and entertainment real estate, which are drastically different from traditional office space.

Keywords

Cornell University, real estate, emerging, markets, creative space, tech space, mixed-use, transit-oriented, walkability, development, site planning, entitlements, entertainment industry, digital media, economy, downturn, economic downturn, cost basis, financing, loan-to-cost, loan-to-value, LTV, LTC, return

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This Cornell University Real Estate Case was prepared to stimulate analysis and discussion in undergraduate and graduate real estate courses. While the case is drawn from a range of actual experiences, it is not intended to illustrate correct or incorrect applications.

Hollywoodland:

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ABSTRACT

This case focuses on an emerging tech, digital media, and entertainment industry market with a stringent entitlement environment, and the opportunity for a developer to create an innovative project that capitalizes on emerging trends. The case asks students to propose a development strategy for a featured site taking into account a wide range of variables and potential uses. The developer, The Oceanic Fund (TOF), has been invited to submit a purchase proposal for a compelling property that had recently come onto the market. In their proposal, TOF must elect to either purchase the asset outright or, alternatively, form a 50/50 joint venture with the seller – Mays McCovey – a creditor that has recently taken title to the asset pursuant to a foreclosure on the previous developer/owner. The case's protagonist is Ben Taylor, a young Development Manager who has been tasked with devising a strategy for the projec, and preparing a proposal to TOF's principals. Students must assess the project through Ben's eyes and devise a strategy that accomplishes a suitable use(s) for the site that is feasible within the entitlement and financing environment, satisfies TOF's return requirements, and intelligently capitalizes on the opportunities borne out of an emerging market. The proposed project gives students exposure to niche product types such as sound stages, recording studios, and creative office, in addition to more conventional asset types such as retail, residential, and hospitality. The case encourages forward thinking and the importance of understanding business trends and business culture, especially those of tech, digital media, and entertainment real estate, which are drastically different from traditional office space.

This case study incorporates the following real-estate themes and issues:

Emerging Real Estate Markets

Creative/Tech Space

Mixed-Use Projects

Transit-Oriented Development

Site Planning

Entitlements

Hollywoodland: Investing in an Emerging Tech, Digital Media, and Entertainment Industry Market

By: Robert Bridges and Henry Ammar

It was early spring 2012, and Ben Taylor worked late at his desk in downtown Cortland[1]. A long flight back from his most recent of a string of business trips overseas had refreshed his appreciation for home. He had been assigned to projects in the United States for the foreseeable future, and it was good to be back where things were so much more familiar.

What was keeping him in the office on this particular evening was news that a very interesting property was coming on the market that his firm, The Oceanic Fund (TOF), had been invited to submit a purchase proposal for. The property was known as *Hollywoodland*, a nod to the famous residential subdivision developed in the early days of Los Angeles. Ben had been informed that TOF would be competing against three other qualified firms, who were all expected to be aggressively bidding for the site. According to the invitation for proposals, the seller of the property was willing to participate in a 50%/50% joint venture or, alternatively, to sell the property outright.

Ben was a young Development Manager at TOF, and was tasked with preparing an internal presentation to the company's Managing Partner and some other top principals, which was due in just two weeks. He had a lot of things to carefully consider as he conducted his analysis, for example the development concept that was feasible, and most favorable for the site. He would also have to consider whether TOF should pursue a joint venture with the seller, rather than purchasing the asset outright, and how his firm would approach what was expected to be a very difficult rezoning process. In order to find the right answers, Ben would have to quickly familiarize himself with what was a rapidly changing market. TOF found itself considering an acquisition in the heart of what had the potential to be the United States' next great corridor of creativity and innovation. If the company made a wise bet, the long-term payoff could be enormous.

Author

Robert Bridges specializes in real estate feasibility and urban economics. As a consultant, his clients include investment and development firms, and international and domestic investors. His editorials have been published in the Wall Street Journal, and has been cited by the Los Angeles Times and National Public Radio, among other outlets. Professor Bridges received USC's Steven Sample Award for Teaching and Marshall's Award for Community. He is a licensed architect who has received awards from the LA Business Council, the Ray Watt Foundation, the Concrete Reinforcing Steel Institute and the American Institute of Architects.

The Property

Located in the western portion of Cortland, the Hollywoodland site was one of the largest contiguous underdeveloped parcels in the heart of what was considered to be a burgeoning creative office submarket. Catering to old and new media companies, and surrounded to the east and north by a healthy multifamily residential market, Hollywoodland was widely regarded as a promising asset with the potential for a multitude of uses.

The site was located within five miles of two major universities, two miles of two major regional hospitals, one mile of a small airport serving private jet traffic, was close to two major freeways, and was within 20 minutes of several of the most iconic luxury residential communities in Cortland (and the world). The proposed Halsey light rail line, with a rail stop at Stoddard Drive, would be completed just two years later, and would run within several hundred feet to the south of the property, connecting east and west Cortland.

The site was shaped in an "L" configuration at the corner of Donnigan Boulevard on the southwest, and Stoddard Drive on the northeast, with a large luxury car dealership

[1] Cortland is a fictional city that is intended to represent a number of emerging tech/creative centers in the United States. This case is intended to be adaptable for multiple geographies with significant creative industries.

completing the rectangle signals (see **Exhibit 1 - Site Plan**). At the time, Hollywoodland contained 251,000 square feet of existing space in four buildings, three of which had recently been renovated. All of the buildings were World War II vintage, concrete wall, bow-truss industrial buildings of the type prized locally for their creative office rehabilitation potential. Although three of the buildings, comprising 84,340 square feet, had been upgraded (located along Stoddard Drive), only one of them was leased at the time, at the below-market rate of $2.00 per square foot on a triple net basis for 12 more months. The remaining building at 1233 Donnigan Boulevard, containing 166,660 square feet had not been occupied in more than three years, and was currently suitable only for storage or manufacturing.

Donnigan Boulevard and Stoddard Drive were the major arterials serving the site. They provided excellent access, but seemingly insolvable vehicular traffic congestion on all surrounding streets presented the most significant development obstacle. Northbound and southbound traffic on Stoddard Drive, adjacent to the site, greatly exceed Stoddard Drive's carrying capacity during morning and evening commuting peaks for drivers headed to and from ramps on the 32 Freeway just south of the site. Eastbound and westbound traffic on Donnigan Boulevard, which fed into Stoddard Drive, suffered from similarly severe congestion.

Francon Street, to the west of the site, was a slightly less congested direct route to less heavily used eastbound and westbound ramps to the 32 Freeway. In order for a driveway exiting the Hollywoodland property at Francon Street to properly align with the intersection of Donnigan Boulevard and Francon Street, an easement would need to be secured for a lot owned by the City of Cortland and the intersection improved with turning lanes and left turn signals. Without such improvements, traffic entering the site from Donnigan Boulevard would be limited to westbound traffic only (left turns from the eastbound lanes were prohibited). Vehicles exiting the site had to travel westbound on Donnigan Boulevard, and couldn't turn south on Francon Street or east on Donnigan Boulevard.

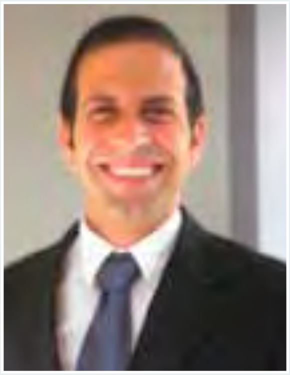
Mays McCovey

Hollywoodland was previously owned by Ellsworth Toohey (Toohey), a local developer who had proposed an ambitious development plan for the site that included a dense mix of medical office and retail uses. At the end of a successful, but sadly pyrrhic entitlement effort the market turned and Toohey was caught with his defensive capital stores depleted, despite being agonizingly close to starting construction. During a prolonged entitlement battle he had managed to overcome significant local opposition to the project and had won the support of public officials. But the sudden downturn in the economy caught Toohey, much as it did other developers with early-stage projects in process during that period, bereft of the equity needed to move ahead. As a result, he lost the asset to Mays McCovey (McCovey), that company that held a note on the property.

McCovey was a fund advisor based in San Francisco that managed an impressive portfolio of institutional capital. Two years before the market downturn, and during Toohey's entitlement fight, McCovey made an offer to purchase the property outright, but its offer price was not attractive to Toohey, and he declined to sell. Later, as the entitlement battle began to strain his finances and he needed another source equity capital, Toohey approached Peter Keating of McCovey for help. Keating agreed to invest in the project, negotiating a note that contained especially protective provisions to displace Toohey in the event of default. Despite the onerous provisions, Toohey forged ahead and continued to face public resistance to the zoning change that he was pursuing. The city and the community were both looking to mitigate traffic and encourage public transportation. Toohey's proposal, given that it didn't offer significant traffic mitigation measures, did not fully address the concerns of the key stakeholders involved to push the rezoning through.

Author

Henry Ammar is a graduate from the Marshall School of Business at the University of Southern California (USC) where he studied Real Estate Development and Finance. He was the President of the Trojan Real Estate Association and has represented USC as a Team Leader in Shanghai, Beijing, and Hong Kong on a real estate fellowship and in an International Real Estate Case Competition. Henry currently works at Worthe Real Estate Group. He has interned with Goldman Sachs' and Caruso Affiliated during his attendance at USC. He has experienced success in the music industry and cheerleading industry and is emerging in the real estate industry. Recognized with national leadership awards, various community service awards, and a Grammy award, Henry aims for great success in the real estate industry.



Very near the end of the entitlement process, despite pleas by Toohey, McCovey refused to advance additional funds that would have finalized and recorded the rezoning. Expressing displeasure with the terms of contingent public exactions and labor agreements that would be codified in the change, McCovey withheld the additional financial support because it didn't want to inherit these conditions should Toohey default – a situation that was, pursuant to McCovey's refusal, inevitable without the required approvals to proceed to construction. This was a crushing blow to Toohey, given how close he was to the finish line. There were high barriers to entry in Cortland, which meant that anyone who could secure the entitlements would be at a significant competitive advantage in light of the supply constraints.

McCovey thus took over the project with a cost basis that was essentially the value of its note (originally made at a low loan-to-cost ratio). Although the firm did not consider itself a developer, and despite Hollywoodland's location being outside its primary market, McCovey was open to considering a 50%/50% partnership with a strong local developer if such a strategy could prove to be accretive, and if the risks involved were acceptable to the company. At its current cost basis, and after receiving considerable cash from sale of a partial interest to a potential partner, even marginal cash flow would represent a once-in-a-blue-moon windfall to McCovey. In its current state, the property was generating modest income, but McCovey was not a developer, and was hoping that a firm like TOF could bring a Midas touch in the form of an inspired development proposal, or, alternatively, with a favorable exit in the immediate term pursuant to a generous purchase offer. TOF had considerable expertise in real estate development and management, and had a long history of successful and innovative projects. The company took a hands-on approach to development, acting as the operating partner for the projects that it participated in, but often also providing a significant portion, or all of, the capital required.

Cortland

Ben, like many others, felt that the site was at the epicenter of what would soon become the equivalent of a new Silicon Valley for creative industries. At the time, Cortland was very likely to become not only the next geographic center for burgeoning traditional entertainment, technology and creative companies, but also a hub for the explosive growth of social media and web entertainment activity. Cortland and the surrounding area was the historic center of the old-line film-based movie industry, but it was rapidly adapting to new entertainment businesses as the industry explored new modes of entertainment content, delivery and distribution. New media companies had recently demonstrated a strong tendency to group together, and proximity premiums on rents could be significant.

Local and regional economies had been severely depressed for the prior three years, but speculation of new real estate spatial demand, boosted by tech and entertainment companies riding the wave of dramatic growth, was creating both optimists and skeptics regarding prospects both near and long-term. For the time being, the most tangible competition was in the metro region of Bayland to the north, but major companies headquartered there were also making tentative moves toward locating significant branch facilities in Cortland.

There were additional factors concerning the Cortland market that made Hollywoodland enticing, including and especially the impending arrival of a new National Football League team, along with development of a large new stadium to host the team in Cortland's city center. The new stadium, if it did in fact materialize, was set to refocus public interest on the Halsey Light Rail line. Seen as a key to bringing spectators into the congested central business district, the Halsey line in its current configuration was best suited to move traffic from the city center west. Due to a serious shortage of both short and long-term public parking facilities near stops in the western portion of Cortland, west-to-east ridership was likely to be low due to the relatively low population density along the light rail corridor. Considerable political capital had been invested by the current civic leadership in making the Halsey line a catalyst for revitalization in downtown Cortland, and a sufficient flow of riders – including patrons of the new stadium - from the west toward the city center was essential for this very expensive new infrastructure to be successful. Both federal and local transportation funds, as well as tax-increment bond financing would potentially be available for transit-related improvements.[2]

Market conditions in Cortland varied considerably at the time, depending on use. For example, market rental rates for triple-net Class-B office space were $2.35 to $2.80 per square foot, while higher-end creative office space generally rented for $2.85 to $5.00 per square foot. Residential rents had been flat over the prior few years, due primarily to an extraordinary economic downturn that started in the United States four years earlier, but were picking up. Market rental rate growth for high quality apartments was expected to be approximately 4.5% for the next year, and 6.5% annually thereafter, while rent growth for big box retail was expected to be only 3.7% for the next year, and 5.0% annually thereafter. Rental rates were widely expected to firm up or spike once it was clear that the economy had turned in a favorable direction. Vacancy rates and capitalization rates also varied considerably. Therefore, it was important for Ben and the rest of the TOF team to carefully assess the market to determine how they could best utilize the site, and how their strategy would affect the asset's value (see **Exhibit 2 - Market and Financial Data** for market data regarding the various product types).

Hollywood 2.0?

More than any other uses, Ben was intrigued by the potential to create a development proposal centered on creative office and production space. Recent advances in the delivery of digital media had created a dramatic increase in demand for both creative content, and the facilities needed to produce it. Cortland's role as a historical center for traditional film and media content gave it a strategic advantage in the context of this trend. While many movie studios existed in surrounding communities, soundstage and support space was largely utilized only by the large, big-name studios, and there was a shortage of smaller, independent film and digital media recording and production space. Foreign content producers had recently looked to purchase smaller production facilities in Cortland in order to be close to the creative pulse of the industry. Technology and social media companies involved in content delivery, but not necessarily content creation, were also looking for large blocks of space, wanting to be physically close to those driving the creative trends. Although digital media and entertainment companies seemed to some real estate professionals to be unstable, there were many established companies that were evolving into potential tenants that could accommodate a development such as Hollywoodland. For example, companies such as MTV, Dickhouse Productions, ABC, Fox, and Truth Recording Studios already occupied the boutique movie studio and sound stage market. In the creative office space, companies such as MTV Studios, Google, Apple, Disney, Facebook, Miramax, IMAX, and Disney were all transitioning into creative office in order to draw and recruit creative talent and inspire a creative culture.

Some of the old-line movie studio lots in the area had been turned into luxury creative-office campuses, in which tenants would pay premiums for the cachet of being located on a functioning movie studio lot. On those lots, the sound stages and spaces directly related to production still continued as functioning businesses, but adjacent office spaces were leased to creative users not necessarily related to film production, but which were attracted by the creative atmosphere and excitement of being close to studio activity. While it hadn't been

[2] The property tax rate was 1.1%.

attempted yet in Cortland, residential or live-work units would also be possible within a movie-studio themed compound. Like the old-line movie studio lots, many individuals looking for space adjacent to, or within, entertainment production facilities would be willing to pay an estimated proximity premium of 10% to 15% over normal market rents (see **Exhibit 2 – Market & Financial Data**).

Movie lots were characterized as being highly secure (with perimeter fencing and 24-hour security), and had architectural themes that reflected a reverence to the rich traditions of movie industry history in the area. Sound stages were central to movie studios' identity, and were usually clear-span spaces in the range of 10,000 to 15,000 square feet, with a minimum of 50' interior clearance. Support spaces such as dressing rooms, office space, workshops and other spaces were usually added at a ratio of one square feet of support space for every two square feet of sound stage. Flexible-use spaces that featured a high degree of adaptability and functional variety were also necessary characteristics of movie industry improvements.

In the course of his initial diligence, Ben sourced a projection of income and expenses for a typical sound stage operator management firm for one or more sound stages, and based upon the numbers he was very enticed. Monthly net income for a 15,000 square foot sound stage based on 21 days of operation and 90% occupancy were expected to be approximately $182,626, on revenues of approximately $182,527 and expenses of approximately $44,862 (see **Exhibit 3 – Sound Stage Income & Expense Projections**). However, sound stages were also potentially very risky projects to redevelop. They were highly specialized facilities that could be problematic to refit for other uses. Unless a creative approach was taken in their design, and advance consideration was given to how they might be adapted to other purposes, they could become white elephants.

Entitlements

The Hollywoodland site was currently zoned M-2, making the site suitable for industrial, office, manufacturing and other uses normal to industrial zoning. The existing buildings could be used in their current general configuration, and could be rehabilitated and leased for a variety of creative uses, such as office space, studios, galleries, research and development and others. Excluded uses in the existing zoning included residential, hospitality, medical, sound stages and retail. There was no height limit, no setbacks from the property lines, and the floor area ratio (FAR) for the site was 1.5. If the buildings along Stoddard Drive were removed or significantly altered, 10 feet in width would have to be deeded to the City along the Stoddard Drive right-of-way for street widening. The buildings located on Stoddard Drive, which were either currently or very recently occupied could be occupied without significant permit fees (typically 1% of the construction cost for tenant improvements), but the 1233 Donnigan property could only be recommissioned if traffic mitigation fees were paid based on the estimated number of additional local traffic trips that would be generated by any proposed new use (in addition to normal permit fees for improvements) (see **Exhibit 4 – Traffic Mitigation Fees**).

In order to construct uses other than those allowed under the M-2 zoning, or to increase density with an approved use, a complex and challenging rezoning process was necessary, including an environmental review process that would invite public input and participation. Other property types such as retail or sound stages would require additional commercial or studio zoning. Other sound stages were entitled nearby and these entitlements were not expected to be as stringent to obtain. Significant community opposition organized principally around the issue of traffic congestion and the types of new tenants or users that would be brought to the site, was to be expected if a rezoning to a higher density use was proposed. In the event of either success or failure, a minimum delay period of 18 months, and $1.5 million in fees would be incurred. Ben also had to carefully consider parking, given that the various potential uses had different parking requirements (see **Exhibit 2 – Market & Financial Data**).

The likelihood of success would depend on the nature and quality of TOF's proposal, but the city councilperson had stated the city's interests to be traffic congestion mitigation, and optimizing ridership on the Halsey light rail line. As was always the case with discretionary political decisions, if a Cortland councilperson favored a development proposal, approvals were received regardless of public objections, and vice versa.

Financing & Development Costs

Whether or not it formed a joint venture with McCovey, various debt-financing options were available to TOF. Ben had spoken with a number of potential lenders and had secured two favorable options:

Option 1 - Stagecoach Bank:

> Stagecoach Bank had offered to provide a packaged Acquisition and Development Loan. The terms were acquisition financing at 50% loan-to-cost (LTC) on the purchase price at an interest-only rate of 5.5% with 50% recourse, development financing at 55% LTC at 6% with 50% recourse, and takeout financing at 70% loan-to-value (LTV), 15-year term, 30 year amortization, at 4.75% with 50% recourse. The acquisition loan amount, construction loan limit, and takeout loan amount were to be fixed at closing in an amount determined by pro-forma rents and current cap rates. There would be a lock-out provision prohibiting repayment of the permanent portion of this loan for 5 years.

Option 2 - Carpenter's Pension Fund:

> Carpenter's Pension Fund offered acquisition financing at 50% LTC with a floating rate of 1-year government securities plus 150 bps with a maximum period of 24 months, no recourse (this was current equivalent of 6.5%). A construction loan was avaialable at 50% LTC, no recourse, also at a floating rate of 1-year government securities plus 250 bps for a maximum term of 24 months (current equivalent; 7.5%). Takeout financing was available at 65% LTV, 10-year term, 30-year amortization at 5% with no recourse. Availability and terms of these loans would change with market conditions.

Other financing options were also available, including bridge financing prior to completion at 50% LTC, 50% recourse, floating at the equivalent of 6.25%, and, mezzanine or preferred equity up to 80% of the required equity for construction financing at 15% preferred return, plus a pro-rata share of the equity. Finding the most appropriate debt financing solution would be driven largely by the nature of TOF's development strategy, and the manner in which it chose to deal with McCovey.

TOF's team of analysts had prepared a detailed cost estimate matrix, which Ben carefully studied as he played out different development scenarios. Much like the range of potential revenue structures, depending on the use the expense structure would be quite different, and it was only once one considered revenue, expenses, and the rest of the relevant variables for each use that the full story of opportunities and challenges emerged (see **Exhibit 2 – Market & Financial Data**).

Assessing The Alternatives

Ben had many different development concepts to consider. In addition to being coveted as a location for creative office users, the Hollywoodland property was also an ideal location for rental housing, condominium development, and various types of retail. The previous owner had entertained and rejected offers by big-box retail tenants, including home improvement retailers and high-end grocery stores, for build-to-suit and ground lease opportunities. While most experts familiar with the property agreed that a high-density medical office facility was probably inappropriate at the time, there was also a consensus that a density higher than the current zoning was appropriate, particularly if the correct mix of commercial and residential uses was proposed. There was an opportunity for a hotel or long-term corporate suite rental product as well.

Ben believed that the best strategy for winning the bid was to develop a two-stage plan involving an immediate effort to create a new identity for the site consistent with its significance in the entertainment industry and to improve the site to its maximum potential under the current zoning and density constraints. Once this was complete, TOF could then begin a second effort to secure the necessary entitlements to complete an overall plan that maximized the development potential of the site.

The challenge would be to create a master plan that would preclude, as much as possible, the need to modify or remove the improvements that already existed on-site, achieve a positive integration of the initial and second phase improvements, provide enough flexibility in planning the second phase improvements to attract the necessary public support, and respond to any concessions or changes that TOF believed might come about during the entitlement process. It was also important for Ben to remain cognizant of the fact that there were other bidders for the asset, and that TOF first had to convince McCovey that TOF was the best party to partner with or, alternatively, take over the project altogether.

As Ben's presentation neared, he reflected on the potential that the project had to not just produce significant long-term payoffs for the company, but also for his own career. He had to make sure that he understood the emerging tech, digital media, and entertainment industries in order to place the proper bet on the development concepts, and in order to maximize the site's potential. He knew that the City of Cortland had high barriers to entry, but based on the changing area and the opportunity to create a win-win situation, Ben felt strongly that an agreement could be made with it. First, TOF had to win the bid among a shortlist of aggressive potential buyers and walk the fine line of satisfying McCovey, while protecting TOF's interests. With an anxious excitement, Ben labored diligently to prepare his proposal in the hope that it would lead to the development an innovative project in an exciting, and rapidly changing market.

Exhibit 1

Site Plan

Exhibit 2

Market and Financial Data

Financial Data Matrix

Proposed Use	NNN Rental Rate/ Sales Price	Rental Rate/Sales Price Growth +1 Yr.	Rental Rate/Sales Price +2 Yr. (Per Yr.)	Current Cap	Terminal Cap +5 Yr.	Market Vacancy Current	Market Vacancy +1 Yr.	Market Vacancy +2 Yr.
Residential								
Live-Work/Loft Style Condos	$250-$315	0%	5.00%			12.00%	11.00%	11.00%
Higher End Condos	$325-$375	0%	7.00%			14.00%	13.50%	13.25%
Live-Work/Loft Style Apartments	$1.50-$1.65	4%	6.00%	6.75%	7.10%	2.00%	2.00%	2.00%
Higher Quality Apartments	$1.07-$2.00	4.50%	6.50%	6.50%	7.00%	2.25%	2.10%	2.20%
Retail								
Big Box	$2.00-$2.20	3.70%	5.00%	6.50%	7.00%	3.00%	3.50%	3.25%
Single Tenant	$2.10-$2.35	3.70%	5.00%	6.50%	7.10%	3.00%	3.50%	3.25%
Within Mixed Use	$2.75-$3.00	3.00%	3.00%	6.85%	7.50%	10.00%	11.00%	10.00%
Office								
Class B(<6 stories)	$2.35-$2.80	3.90%	5.00%	6.25%	7.35%	4.00%	5.00%	4.50%
Industrial Style Creative(<6 stories)	$2.35-$3.50	3.90%	6.50%	6.25%	7.25%	3.50%	4.50%	4.50%
Higher End Creative	$2.85-$5.00	4.00%	6.50%	6.15%	7.00%	3.50%	4.25%	5.00%
Hospitality	**Occupancy**		**ADR**	**Room Rev PAR**	**Total Revenue PAR**	**Expense Margin**	**Current Cap**	**Terminal Cap (+5 yr.)**
Extended Stay	70%		250	175	185	80%	6.50%	7.00%
Boutique	70%		350	245	275	85%	6.50%	7.00%
Midrange	75%		200	150	160	80%	6.50%	7.00%

Specialty

Film/Video/Audio Recording Studio See "Sound Stage Financials" Worksheet

Exhibit 2

Market and Financial Data (Continued)

Sample Construction Cost Input Matrix for Pro Forma Analysis

Proposed Use	Demolition	Site Work	Core and Shell Hard Costs (p.s.f)	Tenant Improvements Hard Costs (p.s.f.)	Soft Costs % of Hard Costs	Cost Escalation 1 Yr.	Cost Escalation 2Yr.	Contingency % of Total Cost	Landscape	Hardscape	Parking on Grade (p.s.f.)	Structured Parking Above Grade (per stall) (long span)	Structured Parking Below Grade(per stall) (short span)	Parking Requirements Ratio
Residential														
Condos (<5 stories)	($4/sf)	$25 gsite sf	$105-$135	N/A	15%	3.00%	6.00%	5.00%	$10.00	$10.00	$4.25	$10,500-$13,000	$45,000-$65,000	1 per bedroom
Condos (5+ story)	($4/sf)	$25 gsite sf	$160-$225	N/A	15%	3.00%	6.00%	5.00%	$10.00	$10.00	$4.25	$10,500-$13,000	$45,000-$65,000	1 per bedroom
Apartments (<5 stories)	($4/sf)	$24 gsite sf	$95-$120	N/A	15%	3.00%	6.00%	5.00%	$10.00	$10.00	$4.25	$10,500-$13,000	$45,000-$65,000	1 per bedroom
Apartments (5+ stories)	($4/sf)	$20 gsite sf	$150-$225	N/A	15%	3.00%	6.00%	5.00%	$10.00	$10.00	$4.25	$10,500-$13,000	$45,000-$65,000	1 per bedroom
Retail														
Big Box	($4/sf)	$15 gsite sf	$35-$48	$12-$25	$0.00	3.00%	6.00%	5.00%	$7.00	$5.00	$4.00	$10,500-$13,000	$45,000-$65,000	1 per 250 sf*
Single Tenant	($4/sf)	$20 gsite sf	$65-$160	$25-$45	$0.00	3.00%	6.00%	5.00%	$10.00	$12.00	$4.00	$10,500-$13,000	$45,000-$65,000	1 per 250 sf*
Within Mixed Use	($4/sf)	$25 gsite sf	$85-$120	$30-$65	$0.00	3.00%	6.00%	5.00%	$12.00	$15.00	$4.00	$10,500-$13,000	$45,000-$65,000	1 per 250 sf*
Office														
Class B (<6 stories)	($4/sf)	$18 gsite sf	$90-$115	$50.00	14%	3.50%	7.00%	7.50%	$9.00	$10.00	$4.00	$10,500-$13,000	$45,000-$65,000	3 to 4 per 1,000 sf
Creative (<6 stories)	($4/sf)	$28 gsite sf	$115-$160	$95.00	14%	3.50%	7.00%	7.50%	$18.00	$24.00	$4.00	$10,500-$13,000	$45,000-$65,000	3 to 4 per 1,000 sf
Hospitality														
Extended Stay	($4/sf)	$12 gsite sf	$125.00	N/A	$0.00	3.50%	7.00%	5.00%	$7.00	$6.00	$4.00	$10,500-$13,000	$45,000-$65,000	1 per first 30 guestrooms; 1/2 per next 30 guestrooms; 1/3 per remaining guestrooms
Boutique	($4/sf)	$35 gsite sf	$145-$225	N/A	$0.00	3.50%	7.00%	5.00%	$25.00	$24.00	$6.00	$10,500-$13,000	$45,000-$65,000	
Midrange	($4/sf)	$20 gsite sf	$160-$190	N/A	$0.00	3.50%	7.00%	5.00%	$20.00	$18.00	$4.00	$10,500-$13,000	$45,000-$65,000	
Specialty														
Video Recording Studio	($4/sf)	$20 gsite sf	$120-$150	$120-$250	17%	3.50%	7.00%	7.50%	$20.00	$15.00	$4.00	$10,500-$13,000	$45,000-$65,000	1 per 1,000 sf**
Assisted Living Facility	($4/sf)	$18 gsite sf	$135-$160	N/A	15%	3.50%	7.00%	7.50%	$10.00	$8.00	$4.00	$10,500-$13,000	$45,000-$65,000	1 per 4 assisted living units

*May negotiate due to mass transit development near site

**Large lots are needed for trailers and sound stage setup

Exhibit 3

Sound Stage Financials

Sound Stage (s.f.)	
Occupancy	90%
Days in Month	21
Square Feet	15,000
Office Space (s.f.)	7,500
Production Office Square Feet	2,000
Storage Square Feet	1,500
Shop Square Feet	2,000
Dressing Room Square Feet	1,700
Misc. Square Feet	300
Total Square Feet	22,500
# Sound Stages	1
Large Truck Parking Spots	1
Number of Carts	1
Number of Guards	1
Number of Lot Assistants	1
Forklift/Manlift	1

	Daily Revenue	*Costs*	
		Fixed	*Variable*
Stage Fee	$ 3,700.00	2%	10%
Offices (s.f)	0.12	2%	10%
HVAC	900	1%	25%
Utilities (Inc. Electricity)	600	1%	40%
Trash	80	1%	20%
Forklift/Manlift	200	2%	10%
Lighting	250	2%	10%
Sound Equip.	250	2%	10%
Internet	500	2%	0%
Car Parking Per Space	15	0%	
Parking Spots	68		
Landscaping		200	
Insurance		50	1%
Large Truck Parking Per Space	100		
Golf Carts	250	2%	20%
Stage Telephones	65	25%	0%
Security Guard	400		
Lot Assistant	450		

Labor		*Manager*	*Security Guard*	*Lot Assistant*
Direct Salary (Per Mo.)		$ 8,000	$ 2,200	$ 2,520
FICA	6.20%	496	136	156
Medicare	1.45%	116	32	37
SDI	1%	80	22	25
Health Insurance (Per Mo.)	$800	800	800	800
Pension	5%	400	110	126
Workers Comp	25%	2,000	550	630
Vacation (Per Mo.)	$150	150	150	150
Monthly Total		$ 12,042	$ 4,000	$ 4,444
Daily Total		573	190	212

Exhibit 3

Sound Stage Financials
(Continued)

Scenario 1: 1 Sound Stages	Daily		Monthly (21 Days, 90% Occupancy)	% of Total
Revenue				
Stage Fee	$3,700		$69,930.00	38.3%
Offices	900		17,010	9.3%
HVAC	900		17,010	9.3%
Utilities (Inc. Electricity)	600		11,340	6.2%
Trash	80		1,512	0.8%
Golf Carts	250		4,725	2.6%
Forklift/Manlift	200		3,780	2.1%
Lighting	250		4,725	2.6%
Sound Equip.	250		4,725	2.6%
Internet	500		9,450	5.2%
Car Parking	1,013		19,136	10.5%
Truck Parking	100		1,890	1.0%
Studio Guard	400		7,560	4.1%
Lot Assistant	450		8,505	4.7%
Stage Telephones	65		1,229	0.7%
Total Revenue	$9,658		$182,526.75	100.0%
Departmental Expenses				
Fixed Expenses				
Stage	74		1,554	3.5%
Offices	18		378	0.8%
HVAC	9		189	0.4%
Utilities (Inc. Electricity)	6		126	0.3%
Golf Carts	5		105	0.2%
Forklift/Manlift	4		84	0.2%
Lighting	5		105	0.2%
Internet	10		210	0.5%
Telephones	16		341	0.8%
Insurance	50		945	2.1%
Landscaping	10		200	0.4%
Security Guard	190		4,000	8.9%
Lot Manager	573		12,042	26.8%
Total Fixed Expenses	$971		$20,280	45.2%
Variable Expenses				
Stage	$370		$6,993	15.6%
Offices	90		1,701	3.8%
HVAC	225		4,253	9.5%
Utilities (Inc. Electricity)	240		4,536	10.1%
Golf Carts	50		945	2.1%
Forklift/Manlift	20		378	0.8%
Lighting	25		473	1.1%
Internet	0		0	0.0%
Telephones	0		0	0.0%
Insurance	47		880	2.0%
Security Guard	0		0	0.0%
Lot Assistant	212		4,444	9.9%
Total Variable Expenses	$1,278		$24,602	54.8%
Total Expenses	$2,249		$44,882	100.0%
Net Income	**$7,409**		**$137,645**	
Net Income Per Square Foot	**$0.33**		**$6.12**	

Exhibit 4

Traffic Mitigation Fees (Schedule A)

City of Cortland TIMP Specific Plan

Land Use	Trip Rate
SHOPPING CENTERS (Square Feet of GLA):	
30,000 or less	10.16
40,000	9.15
50,000	8.44
75,000	7.24
100,000	6.56
150,000	5.67
225,000	4.89
300,000	4.40
400,000	3.97
500,000	3.66
600,000	3.43
800,000	3.15
1,000,000	2.97
1,250,000	2.79
1,600,000 or more	2.61
RETAIL USES:	
Convenience Market (open 15-16 hours)	34.57
Convenience Market (open 24 hours)	53.73
Building Materials/Lumber	3.27
Discount Store, Club	4.35
Furniture Store	0.39
Home Improvement/Hardware/Paint Store	6.10
Nursery (Garden Center)	3.73
Supermarket	10.34
Specialty Retail	5.00
Other Retail	9.60
RESTAURANTS:	
Low-Turnover (Quality Restaurant)	7.39
High-Turnover	12.92
Fast Food	40.09
BANKING USES:	
Walk-In Bank	17.35
Drive-In Bank	43.63
Walk-In Savings and Loan	5.33
Drive-In Savings and Loan	6.83
RESIDENTIAL:	
Apartments	0.49 / dwelling unit
Condominiums	0.55 / dwelling unit
Single Family House	1.01 / dwelling unit
Elderly Housing - Detached	0.95 / dwelling unit
Elderly Housing - Attached	0.08 / dwelling unit

Land Use	Trip Rate
INDUSTRIAL:	
Industrial Park/Industry	0.98
Manufacturing	0.75
Self-Storage	0.26
Science Research & Development	1.07
Warehousing	0.74
OFFICES (Square Feet of GFA):	
20,000 or less	2.84
30,000	2.55
40,000	2.37
70,000	2.25
100,000	2.15
200,000	2.05
400,000	1.75
600,000	1.35
800,000 or more	1.08
Government Office	3.60
Medical Office	4.08
AUTOMOBILE USES:	
Auto Care Center	2.87 / 1000 sq. ft. GLA
Tire Store	5.13 / 1000 sq. ft. GFA
Gas Station	
without mini-market	15.18 per fueling position
with mini-market	17.45 per fueling position
with mini-market & car wash	16.18 per fueling position
Regular Car Wash (full-service)	81 per site
Self-Service Car Wash	8.00 per wash stall
New Car Sales	2.62 / 1000 sq. ft GFA
Used Car Sales/Car Rentals	1.00 / 1000 sq. ft. lot size
HOSPITALS:	
General	1.22 per bed
Nursing Home	0.17 per bed
OTHER:	
Live Theater	0.02 per seat
Movie Theater	0.15 per seat
Child Care Facility	13.62 / 1000 sq. ft. GFA
Health Club	4.3 / 1000 sq. ft. GFA
Tennis/Racquet Club	3.86 per court
Recreational Community Center	1.38 / 1000 sq. ft. GFA
Hotel/Motel	0.76 per room

Exhibit 4

Traffic Mitigation Fees (Schedule B)

City of Cortland TIMP Specific Plan

Land Use	Trip Rate
SHOPPING CENTERS (Square Feet of GLA):	
30,000 or Less	EXEMPT
40,000	$4.75
50,000	$7.01
75,000	$9.01
100,000	$9.53
150,000	$9.41
225,000	$8.79
300,000	$8.22
400,000	$7.62
500,000	$7.14
600,000	$6.76
800,000	$6.29
1,000,000	$5.98
1,250,000	$5.65
1,600,000 or more	$5.31
RETAIL USES:	
Convenience Market (open 15-16 hours)	EXEMPT
Convenience Market (open 24 hours)	EXEMPT
Building Materials/Lumber	EXEMPT
Discount Store, Club:	
30,000 or less	EXEMPT
50,000	$3.61
100,000	$6.32
150,000 or more	$7.22
Furniture Store:	
30,000 or less	EXEMPT
50,000	$0.32
100,000	$0.57
150,000 or more	$0.65
Home Improvement/Hardware/Paint Store:	
30,000 or less	EXEMPT
50,000	$5.06
100000	$8.86
150,000 or more	$10.13
Nursery (Garden Center)	EXEMPT
Supermarket	EXEMPT
Specialty Retail	EXEMPT
Other Retail	EXEMPT
RESTAURANTS:	
Low-Turnover (Quality Restaurant) High-Turnover	EXEMPT
Fast Food	EXEMPT
BANKING USES:	
Walk-In Bank	EXEMPT
Drive-In Bank	EXEMPT
Walk-In Savings and Loan Drive-In Savings and Loan	EXEMPT

Land Use	Trip Rate
RESIDENTIAL:	
Apartments	EXEMPT
Condominiums	EXEMPT
Single Family House	EXEMPT
Elderly Housing - Detached	EXEMPT
Elderly Housing - Attached	EXEMPT
INDUSTRIAL:	
Industrial Park/Industry	$2.03
Manufacturing	$1.56
Self-Storage	EXEMPT
Science Research & Development	$2.22
Warehousing	$1.54
OFFICES (Square Feet of GFA):	
20,000 or less	$5.89
30,000	$5.29
40,000	$4.92
70,000	$4.24
100,000	$3.86
200,000	$3.22
400,000	$2.68
600,000	$2.41
800,000 or more	$2.24
Government Office:	EXEMPT
Medical Office:	$8.47
AUTOMOBILE USES:	
Auto Care Center	EXEMPT
Tire Store	EXEMPT
Gas Station:	
without mini-market	EXEMPT
with mini-market	EXEMPT
with mini-market and car wash	EXEMPT
Regular Car Wash (full service)	EXEMPT
Self-Service Car Wash	EXEMPT
New Car Sales	$5.44 per sq. ft. GFA
Used Car Sale/Car Rentals	2.07 per sq. ft. lot size
HOSPITALS:	
General	$2,531 per bed
Nursing Home	$353 per bed
OTHER:	
Live Theater	$41 per seat
Movie Theater	$311 per seat
Child Care Facility	EXEMPT
Health Club	$8.92
Tennis/Racquet Club	$8,009 per court
Recreational Community Center	EXEMPT
Hotel/Motel	$1,577 per room

Calculation of Fee. Prior to the issuance of a building permit for a project, the Applicant shall pay the TIA Fee based on one of the following two formulas, whichever results in the lower TIA Fee, as calculated by CDOT:

FEE PER TRIP METHOD:

Fee = (Number of Trips Generated) X (Trip Cost Factor of $2,110 Per Trip);

Where:

Number = of Trips	(Floor Area or Unit of measurement, as applicable per Schedule "A")	X	(Trip Generation Rate in Schedule "A")

For shopping centers and retail land uses, the floor area shall be reduced by 30,000 square feet.

2. FEE PER SQUARE FOOT (OR PER UNIT) METHOD:

Fee =	(Floor Area or Unit of measurement, as applicable, pursuant to Schedule "B")	X	(TIA Fee per square foot pursuant to Schedule "B")

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